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David Hume on Canadian Paper Money: An Overlooked Contribution

The philosopher David Hume is renowned in international monetary economics for his 1752 analysis of the specie-flow mechanism of international adjustment. He has been viewed in the literature as an abstract theorist, writing without direct practical experience of public policy or monetary affairs. This paper shows Hume in the unfamiliar role of a British diplomat negotiating the settlement of the outstanding paper money of New France after the British conquest of Canada.

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THE SCOTTISH ENLIGHTENMENT philosopher and historian David Hume is justly renowned as a monetary economist for his specie-flow mechanism of balance of payments adjustment and his analysis of the short-run nonneutrality of money in his *Political Discourses* in 1752 (reprinted in Rotwein, 1955). The extensive modern literature on Hume as an economist (see, Dimand, forthcoming for references) has concentrated almost exclusively on those essays, and has noted that Hume, previously a vehement opponent of all paper money, inserted comments on the potentially favourable effects of paper money in the 1764 edition, but without discussion of what Hume was doing in 1764 or why he might be thinking about paper money at that time. This literature has viewed Hume as a philosopher and theorist who took no part in practical matters of economic policy.

Thanks to the memorable use of playing cards as money, the paper currency of New France is a commonplace of monetary economics, second only to the stone money of the island of Yap, but not in connection with Hume. However, Shortt

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(1925), the fundamental source of the substantial literature on the currency of New France (see, Dimand, forthcoming for references and context), referred in three footnotes to a Mr. Hume who was involved in the negotiations about settling the outstanding paper currency after the British conquest of Quebec, noting that "Mr. Hume, then Chargé d'Affaires, in the absence of Lord Hertford, on 25th September 1765, on behalf of his government, submitted to the Court of France a memoir embodying the proposals of the British merchants interested in the Canada paper" (Shortt 1925, II, 1037n). When Shortt knew someone's given name, birth and death dates, and dates of holding relevant office, his index listed him as "Hocquart de Champerny, Giles (1694–83, intendant 1729–48", but Hume appears only as "Hume, Mr.," (Shortt 1925, II, 1112). The draft of the memoir of 25th September 1765 (reprinted below) is signed simply HUME and refers in its opening to its author as Mr. H. Later writers on Canadian monetary history made no further progress in identifying the Chargé d'Affaires, while the only reference to involvement in practical policy in writings on David Hume as an economist is a mention, in the listing of Hume's papers by Sturges (1975, 47), that the National Library of Scotland has "A memorandum on Canadian paper money, with two related letters of 1765." Yet these materials have long been hiding in plain view like Poe's purloined letter, for Hume draft memorial of 25th September 1765 and a draft in French of the accompanying cover letter to the French foreign and colonial minister, the Duc de Praslin, were published in *The Letters of David Hume* (Greig 1932, Vol. II), albeit relegated to Appendix J by an editor more interested in Enlightenment philosophy than Canadian paper money.

In October 1763, once the Treaty of Paris had ended the Seven Years War and re-established diplomatic relations, the philosopher David Hume (who had earlier diplomatic experience as an attaché in 1746) went to Paris as secretary to the Earl of Hertford, the British Ambassador, becoming Secretary of the Embassy on 3 July 1765 and Chargé d'Affaires from 21 July to 17 November 1765, between Hertford's departure and the arrival of the Duke of Richmond.

The settlement of the Canada Bills was a central concern of the Embassy, as shown by the space they occupy in seven dispatches from Hume to the Secretary of State for the Southern Department (Lieutenant General Henry Seymour Conway, Lord Hertford's younger brother) from 12 August to 23 October 1765 (Klibansky and Mossner 1954, 93–95, 99–100, 100–105, 122–23, 124, 125—earlier dispatches would have been from Hertford rather than Hume). Hume departed for London on 4 January 1766, accompanied by Jean-Jacques Rousseau. Klibansky and Mossner (1954, xxiv–xxv) report that "The question of Canadian money was taken out of [Hume's] hands by the French government" which sent the Comte de Guerchy to London to negotiate the matter, and that "The affair was finally settled on 22 April 1766, after Hume's return to England, when Guerchy and Conway signed a convention in London." They (and Mossner 1954, 497) do not recall in this connection that Hume's return to England was promptly followed by Hume's appointment as General Conway's Under-Secretary of State, or that Guerchy, already French Ambassador to Britain since 1763, took part in Hume's meeting at Compiègne with the Duc de

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Praslin about the Canada Bills on 10 August 1765. The location of the negotiations shifted, but the personnel were only partly changed.

Three *arrêts* issued by the French Court in 1764 called for registration and redemption of the outstanding Canada Bills, with full payment only for bills of exchange acquired before 1759 by their present owners (that is, not resold to English merchants) and for declared and stamped bills of exchange drawn in 1760 for provisioning the army, with other declared and stamped bills of exchange to be redeemed at half their nominal value, and billets d'ordonnance, certificates and card money (together accounting for seven eighths of the outstanding paper currency) to be paid at one quarter of face value. British merchants were indignant and demanded that the British Government intercede, but Hertford and Hume had great difficulty even inducing the French Government to comply with its promises of June 1764. The convention signed by Conway and Guerchy in April 1766 included a bonus of three million livres over and above the terms of June 1764, but payment was made in promissory notes that traded in the London market at 74% of face value in May 1766 but were repudiated and worthless by 1771. General Murray, the British military governor of Quebec, denounced as "public brigandage" the purchase of Canada Bills from habitants by English speculators at 15%–25% of face value (Shortt 1925, II, 993), but the deep discounts reflected the risk and the ultimate result of the purchases was to transfer some of the cost of the Conquest from the French colonists to English speculators.

The affair of the Canada Bills shows David Hume, the theorist of international monetary adjustment and the quantity theory of money, in an unfamiliar light as a diplomat and Under-Secretary of State engaged in negotiating an international monetary settlement. Hume revised his views on paper money in the 1764 edition of his essays, accepting a positive though limited role for privately issued bills, at a time when he was engaged in negotiating the settlement of the Canada Bills (see Dimand, forthcoming). Discussions of Hume as an economist would do well to bear in mind that his theorizing was informed by his direct acquaintance with practical affairs and public policy.

APPENDIX[1]

Memoire

Mr. H. has received Orders from his Court to lay before the Court of France the Proposals of the English Merchants concern'd in the Paper Money of Canada &c.

These proposals are made by the English merchants, in order to conform themselves, as much as possible to the Arret, issu'd by the Cour of France. They still

1. The text of Hume's memorial in this appendix incorporates the additions and deletions made by Hume on the hand-written draft, now (together with the draft cover letter) in the National Library of Scotland (MS. 2618, fols. 53–54). See Greig (1932, Vol. II, Appendix J, 405–406) for the nature of these additions and deletions.

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insist, however, that as that Arret was fram'd without consulting the Court of England, it is liable to great Objections, and exposes them to great Injustice. They insist that all the Paper Money of Canada ought to have been pay'd in full, because the Faith of the French Government is doubly plighted to that purpose both by their original Engagements in Canada, and by the strong Declaration annexed to the late Treaty.

They insist, that, even if a Reduction was to have place, the payment of 50 per cent for the Bills of Exchange preceding Oct[r] 1759 was too low, as well as that of 25 per cent for the Cards & Billets of Ordonnance; because there was so considerable a Difference made between Paper and Money in Canada.

Allowing, that such a Difference had been made in Canada during the years 1759 and 1760; yet as the Arret of the French Court was not issued until July 1764, the Proprietors of the Paper Money had been great Losers, by so late a Payment.

This Hardship is greatly aggravated by the Terms of Payment: the very 25 per cent granted them cannot be disposed of but at 35 or 36 per cent discount, a Circumstance, which the Court of France itself, reasoning upon its own Principles, must allow to be a great Hardship and Injustice.

For all these Reasons, the English Merchants insist that besides the Payments required as above the Sum of 120,000 Pounds Sterling shall be pay'd to them in four quarterly Payments as a Reparation of their Losses. This Sum is proposed to be distributed among the Proprietors of the cards & Billets d'Ordonnance. The Court of England, sensible of the Justice of this Demand, supports it with the utmost Force, and demand, as soon as possible, a precise answer from the Court of France. If the Demand is compl'd with, as from the good Intentions of H. M. Christ Majesty[2] the former Court has reason to expect, she also offers to acquit the latter of all Claims, which the Canadians may have, for the unequal Taxation of Provisions made by the French Intendant and which the last Arret promis'd to redress. These Claims and many others of a like Nature are very considerable; and this consideration is an additional Reason for yielding to the present Demand.

Paris 25 of Sept[r] 1765
HUME

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2. His Most Christian Majesty, the King of France.

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